

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02 PA-02

PRS-01 USIA-15 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00

XMB-04 OPIC-06 LAB-04 SIL-01 ABF-01 /112 W

----- 070064

R 251617Z JUL 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 1698

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 12024

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING JULY 24)

1. AS SELLING PRESSURE ON THE MARKET OF OUTSTANDING DOMESTIC BOHDS INCREASED AGAIN THIS WEEK, THE BUNDESBANK PURCHASED VERY LARGE AMOUNTS OF OUTSTANDING PUBLIC BONDS ON THE OPEN MARKET. BETWEEN JULY 22 AND 24 ALONE SUCH PURCHASES REPORTEDLY REACHED DM 1.1 BILLION. SINCE THE BEGINNING OF OPEN MARKET PURCHASES OF PUBLIC BONDS BY THE BUNDESBANK IN EARLY JULY, THE BANK HAS PURCHASED BONDS IN AN AMOUNT OF DM 1.5 BILLION, OR 2.4 PERCENT OF OUTSTANDING PUBLIC BONDS.

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2. IN VIEW OF THE CURRENT BOND MARKET CONDITIONS THE CENTRAL CAPITAL MARKET COMMITTEE DECIDED ON JULY 23 TO SUSPEND THROUGH THE END OF AUGUST THE FLOATATION OF DEUTSCHEMARK DENOMINATED FOREIGN BONDS. IN THE FIRST HALF OF 1975 DM 5.9 BILLION OF SUCH BONDS WERE ISSUED OR 3 1/2 TIMES THE AMOUNT ISSUED IN THE FULL YEAR 1974. THE COMMITTEE ALSO REPORTEDLY RECOMMENDED A DELAY IN THE FLOATING OF NEW DOMESTIC BONDS. THIS MAY MEAN A POSTPONEMENT IN ISSUING THE NEXT FEDERAL LOAN ON WHICH AGREEMENT APPARENTLY HAD BEEN REACHED BETWEEN BUNDESBANK AND FEDERAL GOVERNMENT.

3. IN REACTION TO THE SUDDEN TIGHTENING OF THE CALL MONEY MARKET AT THE BEGINNING OF THIS WEEK (SEE PARA 4 BELOW) THE BUNDESBANK, EFFECTIVE JULY 23, RESUMED ITS SPECIAL PURCHASES FROM BANKS OF BILLS ABOVE THE BANKS' NORMAL REDISCOUNT QUOTAS. THE BUNDESBANK PURCHASES SUCH BILLS AT AN INTEREST RATE OF 4.5 PERCENT, THE CURRENT LEVEL OF THE BUNDESBANK'S REDISCOUNT RATE. THE BILLS MUST BE REPURCHASED BY THE BANKS AFTER A PERIOD OF 10 DAYS. THE TIGHTENING OF THE CALL MONEY MARKET PROBABLY REFLECTS THE COINCIDENCE OF THREE FACTORS: FURTHER SALES OF FOREIGN EXCHANGE BY THE BUNDESBANK, A HIGH VOLUME OF CURRENCY IN CIRCULATION DUE TO THE VACATION SEASON, AND LIQUIDITY EFFECTS OF THE MINOR MID-MONTH TAX DATE.

4. AFTER THE RESUMPTION OF SPECIAL PURCHASES OF BILLS BY THE BUNDESBANK THE CALL MONEY MARKET EASED. DURING THE REPORTING WEEK FRANKFURT INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH MONEY	THREE-MONTH MONEY
JULY 17	3.8-4.1	4.2-4.5	4.4-4.7
18	3.8-4.0	4.2-4.5	4.4-4.7
21	4.5-4.7	4.3-4.6	4.5-4.8
22	5.5-5.7	4.4-4.7	4.6-4.9
23	4.9-5.3	4.4-4.7	4.6-4.9
24	4.3-4.6	4.2-4.6	4.4-4.8

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5. FOREIGN EXCHANGE MARKET: SPOT DOLLARS CONTINUED TO STRENGTHEN. THE SPOT DOLLAR RATE REACHED ON JULY 23 WAS THE HIGHEST SINCE NOVEMBER 13, 1974. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

FORWARD DOLLARS

(DISCOUNTS IN PCT. P.A.)

	SPOT DOLLARS	ONE-MONTH	THREE-MONTH
JULY 17	DM 2.4750	-2.7	-2.9
18	2.4995	-2.6	-3.0
21	2.5105	-2.4	-3.0
22	2.4988	-1.9	-2.9
23	2.5341	-2.1	-3.0
24	2.5272	-2.4	-3.2

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R 251617Z JUL 75

FM AMEMBASSY BONN

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INFO AMEMBASSY BERN

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USMISSION EC BRUSSELS

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WITHIN THE JOINT FLOAT THE DEUTSCHEMARK REMAINED THE

WEAKEST CURRENCY. THE SWEDISH CROWN REMAINED AT ITS UPPER DEUTSCHEMARK INTERVENTION POINT AND ON JULY 21 THE DANISH CROWN ALSO REACHED THIS POINT.

6. BUNDESBANK FOREIGN POSITION: IN THE SECOND WEEK OF JULY (JULY 8-15) THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.3 BILLION TO DM 81.7 BILLION. HOLDINGS OF LIQUID FOREIGN EXCHANGE FELL BY DM 212 MILLION AND GERMANY'S IMF GOLD TRANCHE POSITION BY DM 12 MILLION. GROSS LIABILITIES INCREASED BY ABOUT DM 80 MILLION. SINCE THE BEGINNING OF THE DECLINE IN UNCLASSIFIED

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THE BUNDESBANK'S FOREIGN POSITION IN EARLY APRIL, BUNDESBANK RESERVES HAVE FALLEN BY DM 4.5 BILLION AS COMPARED WITH AN INCREASE OF DM 5.0 BILLION IN THE FIRST QUARTER OF THIS YEAR.

7. BANK LIQUIDITY: IN THE SECOND WEEK OF JULY BANK LIQUIDITY INCREASED BY DM 1.6 BILLION. MAJOR FACTORS INCREASING LIQUIDITY WERE:(A) DM 1.5 BILLION DECLINE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK REFLECTING A FURTHER ADJUSTMENT IN LINE WITH THE 10 PERCENT REDUCTION IN RESERVE REQUIREMENTS EFFECTIVE JULY 1; (B) A DM 0.5 BILLION DECLINE IN CURRENCY IN CIRCULATION; AND (C) BUNDESBANK OPEN MARKET PURCHASES OF PUBLIC BONDS OF DM 0.3 BILLION. OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 1.2 BILLION. LIQUIDITY WAS REDUCED BY A DM 1.6 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING PAYMENTS FOR THE MINOR MID-MONTH TAX DATE AND THE ABOVE-MENTIONED DM 0.3 BILLION DECLINE IN THE BUNDESBANK'S NET FOREIGN POSITION. THE BANKS USED THE DM 1.6 BILLION INCREASE IN LIQUIDITY TO REDUCE THEIR REDISCOUNT BORROWINGS.

8. BOND MARKET: DESPITE THE BUNDESBANK'S OPEN MARKET PURCHASES OF PUBLIC BONDS THE FAZ AVERAGE YIELDS TO MATURITY OF OUTSTANDING DOMESTIC BONDS INCREASED. DURING THE REPORTING WEEK THEY DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT

JULY 17	8.69	8.75	8.23
18	8.70	8.74	8.22
21	8.73	8.75	8.25
22	8.75	8.78	8.24
23	8.80	8.84	8.25
24	8.82	8.93	8.27

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